

Social Responsibility and Business Excellence

Živko Bergant

College for Accountancy and Finance, Stegne 21c, 1000 Ljubljana, Slovenia

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Abstract— *The article places social responsibility and business excellence into a comprehensive value-added management model which is focused on sustainable development. The author presents the original idea of the value added law and justifies the surplus of added value as a new category and source of participation of all stakeholders in the company. In accordance with this, the statement of surplus added value is presented as a new financial statement, which is the basis for analyzing and planning the performance of the company's operations in accordance with the principles of value added economics. The author therefore emphasizes the need for a comprehensive approach to corporate social responsibility. An important part of social responsibility is the excellence in the business of the organizations.*

I. INTRODUCTION

Business excellence is not an end in itself. It is an important expression of the social responsibility of an organization and is a condition for its sustainable development.

The claim that social responsibility is a precondition for sustainable development is logical at first glance, but it must be acknowledged that in this respect the profession is not entirely unanimous. Friedman, for example, argues that “corporate social responsibility is an increase in profits” and warns that social spending can have a negative impact on investors. Others, on the other hand, argue that investors will reward a socially-oriented company with investments, despite the risk of lower returns (both claims are found in Milne and Chan, 1999, summarized after Van Staden, 2000, 9).

One of the problems is the fact that the assessment of social responsibility is difficult to include in one indicator or information, because it is a multifaceted concept. Nevertheless, there are empirical researches showing that corporate social responsibility increases both the market

value of a company (e.g. Zeng, 2013) and its profitability (e.g. Zakari, 2017).

In this paper, will be therefore presented a business system model that is focused on sustainable development on the basis of relevant information for business decision-making. Within its framework, will be placed the elements of social responsibility and business excellence.

To design such a model, it is necessary to define its basic starting point, which means the output from the business system. To this end, we will present and substantiate the value-added law in the next chapter.

II. THE VALUE-ADDED LAW

For the start, using the system theory, following statements are offered:

1. The basic goal or the desire of human being is its existence, which arises from the instinct aimed at self-preservation, and from it, the human basic needs and interests arise.

2. This is the reason why all persons want to ensure adequate safeness. For this purpose people create various

organizational systems also to get the benefits from synergies; the component of the operation of each organizational system is the risk.

4. Combining people into organizational system, each person who operates within it, contributes to a common goal.

5. Where the value added (in the broadest sense) is not (or no longer) the common goal of the participants, is a system in the process of disintegration.

6. Participants shall manage the risk in accordance with their respective interests within the limits of the possibilities and within the limits set by the environment.

7. In the case of legal or contractual regulation of the mutual relations between the participants in the organizational system, there will inevitably be a re-allocation of risk.

8. If the interests of the participants are adequately met (and the narrow and short-term interests of some individuals do not prevail), the organizational system is in a balance.

9. The occurrence of a disproportion between the accepted risk and the yield attributable to an individual participant results in the creation of entropy forces or increases their power in the system.

10. The strengthening of entropy forces threatens the sustainable development of the organizational system.

12. The basic conditions for the effective participation of participants are the appropriate level of knowledge or competence and appropriate information system with an appropriate communication process involved.

13. The inclusion of a greater number of actors in the functioning of the system (in particular in terms of decision-making) can be dysfunctional and inefficient; therefore, solutions are needed in order to use appropriate methods for their creative cooperation and effective monitoring system.

14. Participants in the organizational system are responsible for ensuring the existence and sustainable development of the system, if its sustainable orientation is accepted jointly.

On the basis of the above starting points, we define the general law of creating and guiding value added (hereinafter: value-added law). Its dictum includes two aspects:

1. Value added is the net outcome of the organizational system in managing the risk inherent to the system and belongs to risk holders in proportion to their contribution to the functioning of the organizational system (the aspect of creating value added).

2. The disproportionately high or disproportionately low participation of individual risk carriers in the value added (considering their work contribution) increases the entropy of the organizational system and threatens the realization of its sustainable development (the aspect of value-added guidance and its distribution).

The value-added law is general because of its validation in all socio-economic systems (past, present and future). The value-added law operates regardless of the wishes or activities of the participants and regardless of the normative organization of the organizational system or its environment. It is, therefore, totally independent of the human will that created the organizational system. The value-added law has various forms of its presence in different economic and political environments and in different types of organization (relations between people) of associations.

On the basis of the value-added law, the entropy of organizational systems is mainly the result of the imbalance between participants' contributions and their participation in value added. This imbalance is devastating because it works against cooperation and mutual trust, which is necessary in the context of interdependence.

The contribution to the functioning of the organizational system should be understood also in its broadest sense, i.e. in all possible forms (e.g. materialized work, such as real and monetary inputs, knowledge, and of course current physical and intellectual work, including guarantees and opportunity costs or losses of individual participants). Mulej similarly speaks about "the effort for the lowest entropy" (Mulej et al., 2000, 269).

The important word in the dictum of value-added law is "net outcome" because it means the difference between the outcome (recognized by users or market certified) and the estimated costs of operating the system, which are: *basic* labor costs, consumption of natural assets or the cost of their replacement, and costs of environmental conservation associated with the outcome.

The basic labor costs mean only compensation for partly wasting work force (similar to the depreciation of fixed assets). They do not represent a newly created value, so they (in principle) are not a part of the value added. Basic labor costs also do not represent total wages, which belong to workers.

The same approach applies to the opportunity cost of capital, which does not represent a part of value added and also does not represent total participation, which belongs to owners of capital.

The result of deducting basic labor costs and opportunity cost of capital from value added is the surplus

value added (SVA), which will be discussed in next section.

More broadly, a notion "total net value added" (TNVA) is proposed. It consists of three dimensions, which mean three social values: economic, environmental and social (Business Dictionary, 2015). This is in line with the principles of triple bottom line accounting, which includes economic, social and environmental reporting (triple bottom line reporting). This focuses on sustainability accounting and represents a culmination in the development of accounting (Schaltegger et al., 2006, p. 6).

A broader understanding of added value is also known as "expanded added value" (e.g., Mook, 2003). Value-added measurement is no longer limited to accounting data, as many models have already been developed that complement traditional accounting information (e.g. EVAS-expanded value added statement, Community Social Return on Investment Model) (Mook et al., 2003a and 2007). Such an approach is also supported in principle by the European Union Directive (EU, 3003, point 14b), which also recommends the use of non-accounting indicators to better understand the company's achievements.

The value-added law includes the equality as a fundamental ethical category, which is not only the result of some subjective thinking about ethics or moral norms (e.g. honesty). The ethics is an objectively inseparable component of the value-added law due to the interdependence of people in a society as a system. Therefore, there is no need any more to stress ethical principles as a reason for corporate social responsibility.

The value-added law includes also the principle that the value added belongs to all those who bear the risk or contribute to the risk management in the organization, that is to the stakeholders. This means that stakeholders need to be divided to governors and non-governors in this regard.¹ Typical stakeholders that are non-governors are creditors, the state, and shareholders that are entitled to dividends but are inactive owners of financial capital (e.g. small shareholders). They bear the risk depending on organization success, but they have relatively small impact on business decision-making or controlling. Similar roles have the employees that are not co-owners and therefore have a small impact on business.

¹ There are, of course, several possible classifications of stakeholders (e.g. Groenendijk, 2003, p. 57).

III. THE SURPLUS VALUE-ADDED STATEMENT

In creating a surplus value-added statement (SVAS) particularly the following starting points should be considered:

1. The statement should be useful for a wider circle of interested people or organizations.
2. The statement should be useful for creating indicators and improving the organizational climate.
3. The costs of products and services sold include minimum wages as an expression of the consumption of labor in the business.
4. The costs of products and services sold include the opportunity cost of invested financial capital.
5. The category gross SVA (with depreciation included) is not meaningful in comparing gross value added as a general known category, therefore it is not shown in the statement.
6. The statement should show the way of creating (sources) of surplus added value (SVA) and its distribution.
7. The most important starting point for SVAS is the equality of stakeholders in participating in surplus value added, consistently with their contribution to risk management. It means that both stakeholders as non-governors and stakeholders in the role of governors should be included.

For the illustration of the surplus value-added statement (SVAS) and its comparison with profit & loss statement (*P & L*) in Table 1, the following assumptions are made:

1. There are 100 employees.
2. Minimum wage per capita is € 800.00.
3. Total capital is € 5,000,000.00.
4. Opportunity cost of capital is 2.5 %.
5. Profit tax is 15 %.
6. Retained profit is allocated to employees and active owners in the ratio between the amount of rewards to active owners and the amount of salaries of other employees (the assumption of the agreement is one to two).
7. For the sake of simplification, we assume that all employees are active co-governors.
8. For the sake of simplification, we did not differentiate between gross and net amounts of remuneration (the difference is, in principle, the state's participation in surplus added value).

In Table 1, the surplus added value was allocated to:

1. Non-active (non-governing) stakeholders. They carry a small part of the risk and their common feature is that they cannot directly influence the business decisions, but have a possibility to control the operations.
2. Governing (active) stakeholders who, in addition to bearing the risk, also contribute to risk management.

In accordance with the idea of the extended value added, a broader aspect of the surplus value added could be defined, which is important for presenting of achievements from the social responsibility aspect. Therefore, this part should be included in the notes to the statement of the surplus value added. These explanations would play the similar role as the explanations to the income statement.

The above assumptions are shown in Table 1, which compares the income statement and surplus value-added statement.

Table 1: Income statement (P&L) comparing surplus added-value statement (in € 1,000)

	ITEMS	P&L	SAVS
	A. GENERATING PROFIT AND SVA		
1	Revenues	9,100	9,100
2	Material costs	4,900	4,900
3	Amortization and depreciation	1,280	1,280
4	Labor costs	1,900	
5	Financing costs	400	
6	Costs of minimal wages		80
7	Opportunity cost of equity		125
8	Profit	1,008	
9	Added value (4 + 5 + 8)		3,308
10	Surplus value added (9 — 6 — 7)		3,103
	B. DISTRIBUTION OF PROFIT AND SVA		
11	Tax	151	
12	Net profit (8 – 11)	857	
13	Net profit for dividends	525	
14	Net profit for management awards	32	
15	Retained net profit	300	
16	SVA for financiers (interest) <i>I</i>		400
17	SVA for non-active shareholders dividends		400
18	SVA for the state (taxes) <i>T</i>		151
19	SVA for non-active stakeholders (16 + 17 + 18)		951
20	SVA for employees		1,820
21	SVA for management awards		32
22	Retained SVA for employees		200
23	Retained SVA for active shareholders		100
24	SVA for active stakeholders (20 + 21 + 22 + 23)		2,152
25	Surplus value added (19 + 24) = 10		3,103

From the comparison between the income statement and surplus value-added statement in Table 1, it is possible to summarize in particular the following:

1. SAVS (together with explanations) takes into account the equality of stakeholders in accordance

with the added-value law and contributes to the disclosure of the corporate social responsibility, orientated to sustainable development.

2. SAVS does not mean only a different view of the organization's income statement, but it also shows that profit is not basic piece of information about the operations from the social responsibility point of view, and in terms of sustainable development. Profit as a category in SAVS simply does not exist anymore.²
3. SAVS takes over a leading role before the income statement. Therefore, it can no longer be regarded as only complementary information to the income statement.
4. SAVS is a useful basis for analyzing the efficiency and effectiveness of the operations, since the surplus added value replaces the profit as the underlying organization's goal.
5. SAVS is an important piece of information, especially for stakeholders of the organization who carry the risk of operations.
6. SAVS can be an important piece of information for investors and business partners, especially in terms of long-term and stable operations.
7. SAVS is also an important piece of information for wider public, especially in terms of social responsibility. In particular, information of the distribution of surplus added value is important.
8. Table 1 shows the connectivity of the surplus added value with the income statement, which is otherwise completely unnecessary for the preparation of SAVS.
9. This does not mean that P&L should not be prepared. It still contains (in terms of a different view of business) useful supplementary information. This is particularly true for a transitional period until value added is widely implemented.
10. SAVS should become an integral part of an integral reporting.

SAVS has some disadvantages, in particular the following ones:

- 1) In a comparative assessment (benchmarking) or within an activity, comparability is difficult, if there are differences in starting points for determining the

² This is consistent with the findings of many authors who demand a shift of organization's goal from shareholder's value to stakeholder value (e.g., Brennan, 2008).

minimum wage or assessing the opportunity costs of the financial capital.

- 2) For the same reasons, SAVS may be less suitable for statistical processing at the state level and for comparisons between different countries.

Problems with comparability can be solved satisfactorily with an appropriate standardized statement, which will undoubtedly be the subject of development over a longer period of time in the future.

Table 1 shows the relationship between IPDV and the income statement, but for its preparation the income statement is completely unnecessary. This does not mean that it should not be prepared, as it contains (due to a different view of business) useful additional information, especially in the context of management accounting and appropriate internal reporting. This applies in particular to the transitional period until the statement of surplus value added becomes more effective.

IV. MANAGEMENT ON THE BASIS OF VALUE ADDED

Based on the justifications of the importance of added value, we can form a management model based on added value, because on this basis, in its basic, and even better in a broader definition, we can take into account the interests of stakeholders. Therefore, in Figure 1, it was chosen as the fundamental goal of the management of the organization.

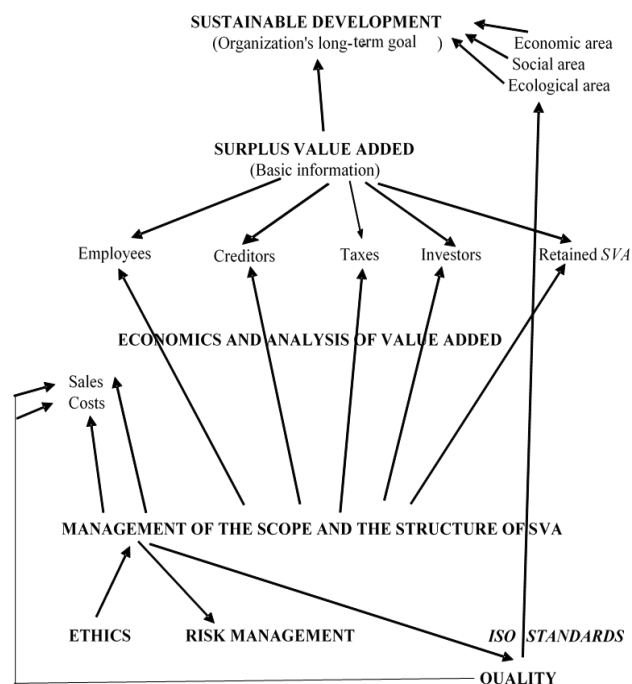


Fig.1: Management model on the basis of the value added

A precondition for sustainable development as a long-term goal is that organization behaves accordingly to social responsibility in three areas: economic, social and ecological. That is shown in Figure 1.

Figure 1 shows the value added as basic information about organization's performance to achieve sustainable development. Here should be immediately emphasized that the value added in Figure 1 is in its widest definition, i.e. also with non-accounting expressed achievements or returns (e.g. expanded value added). The structure of value added, however is shown only from an accounting point of view.

Figure 1 defines two basic orientations (focuses) of business management:

1. The *volume* of surplus value added (creating SVA) through maximizing revenues and optimizing costs.
2. The *structure* of surplus value added (distributing SVA) through adequate economic policy of value added that encompasses planning, investing, remunerating, borrowing, tax optimizing and dividend policy.

The appropriateness of decisions in three areas of social responsibility (economic, social and ecological) can be measured by principles and recommendations of ISO standards on quality of business in these areas (BSI, 2020), which is also indicated in Figure 1.

The quality management is focused on the current operations through quality of revenues and by costs management that is a matter of ISO standards as well. One of basic dimensions of management is risk management, which is also shown in Figure 1. Last but not least, organization's management must consider ethics' principles in creating and distribution of surplus value added. That is also shown in Figure 1.

The areas of business decisions listed and shown in Figure 1 reflect the full weight and responsibility of management, and their consequences are directly reflected in the added value created, (dis) consideration of social responsibility, and thus in the possibilities of sustainable development of the company. Such an orientation is also supported by empirical research, which substantiates added value as one of the key indicators of sustainable development (Oshika, Saka, 2015, 14).

Undoubtedly, the presented model requires further in-depth theoretical work. For example, it raises the question of the adequacy of the use of the profit category in various known and established economic models (for example, in assessing the value of companies). Above all, it means important changes in the existing legal order.

It is useful to take into account that the reason for not involving other stakeholders besides capital in management is not an insurmountable technical problem, but resistance of a purely ideological nature or a question of power and dominance in the corporation and hence in the economy and society.

It must not be forgotten that such changes in just one country are unlikely or almost impossible. It is therefore about changing the general view of the world and the functioning of man in it. It is therefore necessary to connect on a broader level, which, of course, does not happen overnight.

The strongest argument for preparing and enforcing changes is undoubtedly an alternative that is of no interest to anyone. This is a continuation of current trends in the world, which are by no means encouraging and we cannot be satisfied with them. Of course, changes need to be properly presented, which is a kind of challenge for both the profession when it comes to the preparation and the policy when it comes to the implementation.

V. CONCLUSION

The commentary on Figure 1 shows the necessary observance of the principles of quality in the organization's operations, mainly due to its social responsibility, aimed at sustainable development. Where is the place of business excellence in all this? The excellence is, in principle, a process of continuous quality improvement. Business excellence therefore enables a constant competitive advantage and sustainable development of the organization. At the same time, it is the highest expression of its social responsibility.

Numerous management models and tools of total quality management can contribute to the achievement of business excellence, but due to the need for practical use, they are necessarily focused on individual areas of business. Each model has its advantages and disadvantages, its use is not necessarily optimal in each community, as they differ in many features.

Figure 1 provides a principled and comprehensive basis for shaping the mission, vision and strategy of an individual company, where quality and thus business excellence are a component of business that takes into account social responsibility and is aimed at sustainable development of the company.

In doing so, associations should also have enough support at the state level, in particular within the framework of the relevant *acquis*, with the aim of developing an appropriate corporate culture, public administration and civilizational norms. The role of civil

society in the broadest sense is extremely important in shaping and strengthening this support.

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